Questions and Issues

<u>Construction and Site Costs</u>

Q - Who pays for the street vacation?

Investor.

<u>Key Arena</u>

Q – What will happen with Key Arena?

Depending on the timing, Key Arena may be the venue for the new franchise(s) to use during construction of the new arena. With or without a new arena the long term future of Key Arena will need to be determined.

<u>Security</u>

Q – What happens to the security reserve at the end of the term?

That is still to be negotiated. Our initial conversations with the investor regarding security reserve have focused on providing adequate protections to the public during the life of the 30-year proposal. Further negotiations will be needed to address what happens to the security reserve when the 30-year term lapses.

Q - How will the intention of a backstop by the private development team be actualized over the 30 year duration?

There are multiple backstop mechanisms. The first is that in any year that arena revenue falls short of public debt obligations the investors will make an additional rent payment to cover the shortfall Second, there will be a reserve fund that will grow to three years average annual debt service by year ten that could be used for any revenue shortfall in any given year if the investors fail to pay additional rent. If the reserve fund is drawn upon the investors are responsible to replenish the fund to its required level. Additional security will be contained in the legal documents, including the first priority status.

Q - If the taxes/base rent were not enough, how do we assure ourselves that the teams and the facility operator will actually come through with the base rent?

The reserve fund is the secondary security source to cover any shortfall in revenue or rent. If the fund is drawn upon the team must replenish the fund to its required level. The reserve fund is required to reach 3 years debt service by Year 10. Having three years of debt service available would allow the City to weather annual shortfalls.

Q - Imagine this: 15 years into the 30-year deal, another city comes forward and pitches and woo the owners' way. The current owners break the "unbreakable" lease and sell their teams to the new LLC. Will we taxpayers then be paying off the bonds of an aging-but-still-useful arena?

The deal principles (and legal documents) will require that the terms of a 30-year lease will be binding upon the signatory parties requiring specific performance, and that any transfer of the lease's legal responsibilities would have to be approved by the City. In addition, the leagues acknowledge the lease agreements, and will have final approval authority over the sale/relocation of a team and any related legal obligations that are implicated in a potential sale/relocation. In the unlikely event that the owners and the league try to move the team, the owners will be required to pay liquidated damages which will cover the public investment.

Q - How does Chris Hansen's commitment to a 30 year lease differ from past experiences in which a team leaves a venue prior to the end of the agreement? (e.g. Key Arena)

The proposal submitted by Chris Hansen differs from the Key Arena arrangement in a number of significant ways. Primarily, the Sonics' lease for Key Arena was for a term of 15 years, however the City bonds that were issued to fund renovation of Key Arena were for a term of 20 years. In the current ArenaCo proposal, the bond term and the facility lease term are the same – 30 years.

Secondly, the City did not have a non-relocation agreement in its agreements with the Sonics owners. The City was clear from the onset of negotiations with the investor that having a legally binding non-relocation agreement would be critical to any proposal. As a further protection, in the unlikely event the owners attempt to move the teams prior to the end of the 30 year lease term, City will also be requiring the payment of liquidated damages covering the public investment

Q - If debt remains on any attendant facilities at any time during the term of the supporting bonds, and the team or teams as well as the owner/investors become financially unable to defease the bonds, who will bondholders look to for recovery of their investment? And how will the City and County be assured with certainty that the bondholders have no recourse against them for payment?

If the team were to depart Seattle, the City/County would use the liquidated damages clause to repay the bonds (see below). If the team were to declare bankruptcy, the City/County would use the security reserve to cover any revenue shortfalls that may occur while the situation was being resolved. The City/County would also draw upon its first priority status to draw on additional revenue sources for debt service if needed. For example, the Portland arena declared bankruptcy in 2004 and took three years for a new deal to be struck with the team. It is important to note that the arena would still be operating during a bankruptcy and taxes would continue to be collected

Q – How is the non-relocation clause actually binding?

It is a legal document that can be enforced in court. In addition to specific performance, a liquidated damages clause is included in the non-relocation agreement with the damages equal to investment on the project. Finally, the NBA and NHL will have to approve the City's agreement with the investor, and will have ultimate say over any potential team relocation in the future..

Q - Could the county and city taxpayers have a "senior tier obligation," in the teams themselves? Or something similar to the Green Bay Packers - a non-profit, community-owned sports team. Could the city and fans do something similar here to assure the teams couldn't leave us hanging?

The investors have proposed putting the public sector in a senior debt position. This would allow the public to go after the franchises if a problem arises.

Q - Can or should Seattle/King County have a security interest in the sports team franchises to maximize financial and legal protection ensuring the franchise owner's performance under the lease and to protect in the event of bankruptcy or a sale of the franchise?

The City and County will have strong legally binding agreements that protect them . The NBA and NHL do not allow public ownership.

Community Investment and Community Benefits

Q – If the teams do relocate, do the liquidated damages cover assistance to businesses in the immediate vicinity?

Presently, the liquidated damages concept includes repayment of the public investment but does not include assistance to local businesses. We could explore this.

Q – What is the impact on jobs in the region?

2,000 construction, 300 – 400 permanent; 800 – 1,000 part time. There will be additional employment from related business development but it is difficult to quantify how much.

Financing

Q - What is the legal mechanism for taxes specific to the arena? Are new state laws required?

No new taxes will be created or used to support the arena. The tax revenue that generated from the facility is from existing taxes, including admissions tax, sales tax, property tax, business and occupation tax, etc. No new state laws or other state legislative action is required.

Q - What will the legal relationship be between the city and the county?

At a basic level, the City and County will be financial partners. The intention is that the City will play a larger role in the day to day development of the facility. Beyond that the exact scope of the relationship has not been defined yet.

Debt

Q – Will the public debt be structured in a way that would allow for early retirement of debt, or potential buy-out from private investors?

That is certainly a prudent concept and a possibility.

Q – What is the City and County's capacity to absorb this project in terms of debt?

Both the City and County have sufficient debt capacity to carry out a project of this size.

Q - If the city and county issues $200 million in construction bonds, on a 30-year term, do we have assurance that the annual debt service could truly be met through taxes on the arena and rent?

The current projects show that the debt can be paid through a combination of rent and taxes. However, the City and County have also insisted on additional levels of security including an additional rent payment if base rent plus taxes is insufficient to cover debt payments as well as a debt service reserve which grows to an amount equal to three years debt service by Year 10.

Sports Economics

Q - Can Seattle/King County reasonably afford to financially support seven major sports teams (Seahawks, Sounders, Mariners, Storm, Huskies, NBA team, NHL team) and five major venues to house them? Are there other major metropolitan areas in the nation that currently support this number of teams/venues? Have there been in the past?

The investors and the leagues have to make the final decision on this. This region has been continually mentioned as a prime market for both the NBA/NHL.

Traffic and Transportation

Q – How will game scheduling be done?

There is already a defined process and agreement in place between Safeco Field and Century Link to deal specifically with this scheduling issue. Any new team owners will be required to work with the two existing stadiums on how to apply this agreement/defined process to a new sports facility in this Stadium Overlay District.

Many cities have sports facilities located in close proximity to one another, as does Seattle. The various leagues are accustomed to working together on scheduling. It is in their interests to compete as little as possible.

Q – How will traffic be managed?

Seattle has a history of having its sports teams collaborate on a transportation plan with a community advisory council that tries to mitigate traffic impacts. These agreements and staffing for the community advisory council are managed through SDOT and agreed upon at the beginning of each year.

Q - Is there an impact by the railroad on the property, how will issues related to it be resolved?

While a portion of the site is w/in the railroad right of way, that specific site is not critical to the development of the arena.

Q - Transportation appears to be a concern to others in the neighborhood; will solutions to this issue require funding? Is that in your budget?

Transportation concerns are always an issue with a development of this type. While it is too early to identify specific traffic impacts, traffic analysis is part of the land use permitting process. Issues and solutions will be developed as part of that process. The City and County have stressed to the investors that the public will bear no expense for the development of the arena, including required transportation improvements.

Construction

Q - How much land has been assembled and what additional parcels may be needed?

The investors have control of all the parcels needed to construct the arena.

Q - What are the components of the $490 million construction budget?

Land - $100 Million
Hard Cost - $320 Million
Soft Cost - $75 Million
TOTAL - $495 Million

Operations

Q - Can we count on the teams to set aside millions of dollars in a capital expenditure fund and a debt service reserve fund as described to date?

This is a fundamental part of the deal between the investors and the City/County. Failure to perform on these issues would be a breach of contract and carry substantial penalties for the investors.

Other
Q - How does the UW revamp of Husky stadium impact this?

There is no direct impact on the arena development. Indirectly, and similarly to the proposed arena, the Huskies will be depending on sale of suites and other types of season tickets to support the costs of the new stadium.

Q - Will Chris commit to working only on the Seattle location for a period of time? Competitive facilities in the region could lead to a change in the financial transaction.

Mr. Hanson is only interested in locating a team in Seattle.

Q - I have heard this statement: "the public investment would pay for itself, with little or no risk to taxpayers." Do you believe this is true?

While there is always risk, the proposed arena deal has a number of security provisions that protect the public's investment.

Q - Wouldn't sports fans spend much of the same money on other teams?

There will certainly be substitution of sports related dollars as fans attend an NBA game instead of an NFL game. This substitution effect is included in the arena financial model.